D.P.U. 94-8A-CC

Investigation by the Department of Public Utilities of Western Massachusetts Electric Company's Conservation Charge.

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I. INTRODUCTION

On February 2, 1994, Western Massachusetts Electric Company ("WMECo" or "Company") submitted to the Department of Public Utilities ("Department") a recalculation of WMECo's conservation charge ("CC") to become effective March 1, 1994.[1] On February 2, 1994, the Department issued an Order of Notice and directed the Company to publish said Notice. The Order of Notice established February 10, 1994 as the deadline to file petitions to intervene and established February 18, 1994 as the hearing date.

The Department received petitions to intervene from the Massachusetts Division of Energy Resources, Massachusetts Public Interest Research Group, Conservation Law Foundation, Inc., Monsanto Company et al., ("Monsanto"),[2] and the Attorney General of the Commonwealth of Massachusetts ("Attorney General") (collectively "Non-Utility Parties" or "NUPs"). All petitions to intervene were granted.

On February 16, 1994, the Company submitted a revision to its February 2, 1994 CC filing ("Revised CC Filing"). Specifically, the Revised CC Filing (1) corrected a mathematical error in

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[1] The Company requested that the effective date of the 1994 CC be March 1, 1994 for two reasons. First, this date coincides with the Company's quarterly fuel adjustment clause charge and would thereby minimize the number of customer bill changes (Company letter November 4, 1993). Second, the Company stated that it would be able to provide more accurate and complete information with a March 1, 1994 effective date as opposed to a January 1, 1994 effective date (id.). In response, the Department directed the Company to submit its CC filing as soon as complete historical expenditure information was available, but no later than February 1, 1994 (DPU 92-88-A, Department letter December 9, 1993).

[2] On February 17, 1994, Monsanto filed an amended petition to intervene to add the following parties: International Paper, Kimberly-Clark Corporation, Mead Corporation, and Smith & Wesson Corporation.

the development of the allocation percentages for the G-2 and T-2 rates, and (2) updated the allocation tables for the Neighborhood Program and the Commercial Customer Initiated Program (Exh. WM-2).

On February 18, 1994, the Department conducted a hearing in the CC proceeding.[3] In support of the Revised CC Filing, the Company presented the testimony of four witnesses from Northeast Utilities Service Company: Richard A. Soderman, manager of regulatory planning; Janet R. Palmer, manager of revenue requirements; John A. Amalfi, manager of conservation programs and monitoring; and Michael Townsley, manager of demand planning and analysis.

The evidentiary record includes Company responses to 22 information requests and one record request as exhibits. The Company submitted three exhibits and Monsanto submitted one exhibit. On February 23, 1994, Monsanto filed a letter in lieu of a brief ("Monsanto Letter").[4]

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[3] At the hearing, the parties stated that, because of the compressed time frame of this proceeding, the parties were prepared to go forward with only the arithmetical issues and not the policy issues in this case (Tr. at 8).

[4] In the Monsanto Letter, Monsanto requested that the Department establish a separate CC within the T-2 rate class for each class of customer; residential, commercial, industrial and street lighting (Monsanto Letter at 1-3). Since other parties to this proceeding did not have adequate time to respond to the issues raised by Monsanto, the Department cannot consider Monsanto's request in this Order. Nonetheless, the Department notes that to further disaggregate rate classes as suggested by Monsanto may be inconsistent with the Department's practice of allocating costs in accordance with cost causation. See Cambridge Electric Light Company/Commonwealth Electric Company, D.P.U. 89-114/90-331/91-80, Phase One, at 169-170.

II. CONSERVATION CHARGES

A. Proposed Changes to the Conservation Charges

1. The Company's Proposal

The Company proposed to revise the conservation charges for the eight rate classes which have a CC (Exh. WM-2, Table 1). The current and proposed CCs are illustrated in Table 1 at the end of this Order. As Table 1 indicates, the CCs proposed for all but two rate classes would be reduced substantially from their current level. Under the Company's proposal, the CC for rate class R-3 (the residential electric heat class) would increase by 28 percent to 1.0397 cents per kilowatthour ("KWH") and the CC for rate class G-2 (the commercial/industrial primary general service class) would increase by 112 percent to 1.5382 cents per KWH (Exh. WM-2, Table 1). Typical bill impacts due to the increase in the G-2 CC would range between 6 percent and 8.7 percent (Exh. DPU-1-5, Revised). The Company attributed the increase in the R-3 CC to a number of factors, of which the most important are declining sales in that class and an increase in the percentage of Electric Space Heat Program costs allocated to R-3 (Exh. DPU-1-1). For rate class G-2, the Company attributed the CC increase primarily to the fact that the CCs in effect in 1992 and 1993 substantially undercollected from this rate class (Exh. DPU-2-2). According to the Company, the CCs in effect in those years were based on cost allocators reflecting DSM program participation in 1991 (id.). Because G-2 customers participated in the Company's DSM programs to a much larger extent in 1992 and 1993, the CCs collected substantially less from G-2 customers in those years than was spent on them (id.).

The Company utilized the following methodology to calculate its proposed CCs. The

Company determined each cost component for recovery on a program-by-program basis (Exh. WM-1, Att. A at 1). The costs for each program were totalled and allocated to the individual rate classes based upon the number of participants or incentive dollars rebated for measures installed in each rate class for each year (id.). The Company included a second reconciliation of the 1991 Fixed Cost Revenue Adjustment ("FCRA") and 1991 incentive payments and carrying charges (id.). Also included was the first reconciliation of 1992 FCRA (id.). Administrative costs, for 1994 and 1995, which include program evaluation costs, were allocated to the individual programs based on actual or expected lifetime energy savings per program (Exh. DPU-1-11).

Included in the CCs are budgeted non-payroll expenses of $13,189,000; budgeted payroll expenses of $1,011,000; administrative costs of $2,129,000; an amortized deferral of $1,000,001; deferred carrying charges of $104,672; performance contracting costs of $90,773; a 1994 unrecovered FCRA of $9,711,818; a 1993 incentive payment of $2,039,556; and carrying charges on incentive payments of $127,369 (Exh. WM-1).[5] The total costs projected to be incurred in 1994 are $27,274,189. However, as a result of overcollections in some rate classes in 1992 and 1993, and the interest that accrued on these overcollections, the Company proposes to collect only $22,731,053 through its CCs in 1994 (Exh. WM-2, Revised Summary).

In response to Department staff inquiry, the Company developed an alternate set of CCs which employed allocation factors based on DSM program participation patterns in the years

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[5] The amortized deferral includes recovery of $333,333 allowed for 1993 and $666,666 allowed for 1992. See Western Massachusetts Electric Company, D.P.U. 92-13, at 4 (1992). The Department accepted this amortization of direct program expenditures and noted that we would continue to require companies to demonstrate that they have proposed an appropriate level of amortization and terms of cost recovery which adequately address the concerns of all interested parties. Id. at 8.

1990 through 1993. This reallocation of costs resulted in a somewhat smaller CC of 1.372 cents per KWH for the G-2 rate class than had been initially proposed representing an increase of 89 percent as opposed to the 112 percent proposed increase (Exh. DPU-2-1).[6] With regard to increasing share of costs to be borne by participants, the Company cited research that it had conducted indicating that increasing the cost of participation in the programs available to these rate classes would result in significant reduction in participation and that increased marketing expenditures would be required to maintain participant levels (id.). Finally, with respect to the amortization of the DSM costs, the Company stated its belief that the 1994 Settlement precluded amortization of program expenditures as a method of cost recovery for 1994 and 1995 (id.).

At the hearing, the Company made a proposal to address concerns regarding rate continuity. Under the Company's proposal, the increase in the G-2 CC would be implemented in two phases (Tr. at 17-18): the first phase would implement half of the proposed increase to the CC on March 1, 1994; the second phase would implement the second half of the proposed increase on September 1, 1994 (id. at 18-20). Using this method, the Company would undercollect approximately $800,000 from G-2 customers over the next six months (id. at 19).

2. Position of the Parties

During the hearing, the Attorney General objected to limiting the proposed increases to the R-3 and G-2 CCs by recalculating CCs to reflect amortization and alternate cost allocations. The Attorney general argued that (1) such issues had not been specifically noticed for investigation in this proceeding (2) the tight procedural schedule in this docket left insufficient

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[6] However, this methodology also increased the cost allocation to rate class R-3, resulting in a CC higher than that proposed by the Company in the Revised CC Filing.

time for parties to prepare for the hearing if these issues were to be included, and (3) these issues were resolved by the Settlement approved by the Department in Western Massachusetts Electric Company, D.P.U. 92-88-A (1994) (the "1994 Settlement") thus limiting the Department's actions in this proceeding (Tr. at 8-10, 76-86).

3. Analysis and Findings

Except as discussed in Section II.B. below, the Department finds that the Company has applied an acceptable methodology for calculating revisions to its CCs. Accordingly, the Department hereby approves the proposed CCs for rate classes R-1, G-0, T-2, PR, S-1 and 24 for implementation on March 1, 1994. The Department notes, however, that these CCs are approved subject to revision, pending the Department's investigation into the monitoring and evaluation of the Company's DSM programs in a forthcoming docket.

With respect to rate classes R-3 and G-2, however, the record indicates that, if the Department were to approve the proposed CCs, the bill impacts in these rate classes would violate the Department's objective of rate continuity. See Western Massachusetts Electric Company, D.P.U. 91-290, at 8 (1992); Massachusetts Electric Company, D.P.U. 92-278 at 116 (1992); Boston Edison Company, D.P.U. 1720, at 112 (1984). The record also indicates that much of the discontinuity is the result of a mismatch between cost allocation and cost recovery occurring over the last two years.

The Department considers it a company's responsibility to monitor and adjust DSM program implementation to ensure that revenues collected through the CCs are consistent with the program costs allocated to each rate class. When revenues and program costs are allowed to

diverge substantially, as has occurred in this instance, it is a company's responsibility to propose a plan to bring the two back into alignment in a manner that would not cause unacceptable rate impacts.

The Company has not presented such a plan in this case. Furthermore, these CCs have been proposed in the context of a necessarily brief proceeding which afforded little opportunity to explore alternatives. Accordingly, the Department does not approve the proposed CCs for rate classes R-3 and G-2, and directs the Company to maintain the CCs that are currently in effect for these rate classes.

In response to Department inquiries into alternatives for mitigating the impact of the proposed CCs, the Company and the Attorney General argued that provisions in the 1994 Settlement would preclude the amortization of DSM costs. The Department does not address those arguments here. Rather, the Department hereby notifies the parties to this proceeding that it intends to further investigate this and other options which will allow the Company to recover DSM-related costs allocated to rate classes R-3 and G-2 without unacceptable rate impacts. This investigation will be conducted in the Department's investigation into the monitoring and evaluation of the Company's DSM programs in a forthcoming docket.[7]

B. Allocation of Administrative Costs

1. Discussion

In its response to information request DPU-1-11, the Company indicated that, in calculating its proposed CCs, it allocated projected 1994 administrative costs of $2,129,000 to

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[7] All parties to D.P.U. 94-8A-CC will be parties in that forthcoming docket.

DSM programs on the basis of lifetime energy savings projected for each program (Exh. DPU-1-11).[8] During cross-examination at the hearing, the Company's witness, Mr. Townsley, stated that in prior CC filings the Company allocated evaluation costs, which account for approximately half of the administrative costs, directly to the program for which evaluation costs were incurred (Tr. at 52). Mr. Townsley indicated that in order to expedite the filing in this proceeding, lifetime energy savings had been used as an allocator for these costs (id. at 53). Mr. Townsley subsequently presented an exhibit comparing the allocation methodology employed by the Company in its filing to a direct allocation of evaluation costs (Exh. WM-3).

2. Analysis and Findings

In the past, the Department has consistently directed companies to allocate DSM program expenses directly to the rate classes on behalf of which expenditures are made. See Massachusetts Electric Company, D.P.U. 89-194/195, at 212 (1990), Cambridge Electric Light Company/Commonwealth Electric Company, D.P.U. 91-80, Phase 2-A, at 65 (1992). The record indicates that in the instant case, the Company has allocated costs to programs (and subsequently to rate-classes) on the basis of energy savings projected for such programs. However, the record indicates that the difference between the allocation method filed by the Company and a direct allocation of administrative costs as required in previous cases is likely to be quite small. Accordingly, the Department has allowed the Company to implement certain CCs as proposed. However, because the Department's upcoming investigation into the monitoring and

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[8] Total 1994 administrative costs include expenditures related to DSM program staff, market research, program planning, program evaluation, support for the collaborative process with the NUPs and data processing (Exh. DPU-1-11).

evaluation of the Company's DSM programs may necessitate further revision to the CCs, the Department finds that reconciliation of administrative costs is appropriate in that docket. Therefore, the Department directs the Company to reconcile revenues collected under the filed allocation with an allocation which assigns to each DSM program all administrative costs incurred specifically for each DSM program, and which allocates common administrative costs (i.e., those not specifically associated with individual programs) to each program in proportion to direct program expenditures.

C. Merger of the Residential Conservation Charges

1. The Company's Proposal

In the cover letter accompanying its conservation charge filing, the Company requested that the Department consider merging the R-1 and R-3 CCs, as a means of mitigating the rate impact that the CC revision would have on R-3 customers (Exh. WM-3, Cover Letter). As indicated in Table 1, the proposed merger would increase the CC for R-1 customers by 4 percent, while decreasing the CC for R-3 customers by 36 percent.

2. Analysis and Findings

The Company's proposal to merge the R-1 and R-3 CCs focuses on the issue of the proper allocation of the DSM program costs in CC proceedings. The Department has considered this issue in numerous cases. In Massachusetts Electric Company, D.P.U. 89-194/195, (1990), the Department rejected that company's proposed allocation of DSM costs, stating that:

> [t]he Department's major concern in cost allocation is fairness. Fairness requires that cost allocation be designed to reflect the Company's costs to serve each rate class, directly assigning those costs associated with providing services to a class and allocating joint and common costs when direct assignment is impossible....

> Historically, the Department's position has been that where there is clear evidence that the costs attributable to a program are providing benefits to a particular rate class, direct assignment of costs is preferable. Although the C&LM programs ... are open to participation by only a limited number of customers within each class, they are closed completely to members of other classes. The Department recognizes the fact that not all customers in a class may participate in all programs available to a class and that, accordingly, the bills of some nonparticipants will still reflect C&LM costs not attributable to them if costs are allocated to the entire class. However, fairness dictates that customers who are prohibited from participating in a program because their class has not been offered that program should not have to see their bills rise to pay for it.

Id., at 211-212.

The Department has affirmed this precedent in several subsequent cases. See, e.g., Boston Edison Company, D.P.U. 90-335, at 113 (1992); Cambridge Electric Light Company/Commonwealth Electric Company, D.P.U. 89-114/90-331/91-80 at 177-179 (1991).

In the present case, the Company has not argued that cost allocations required by the Department are in any way unreasonable or unfair to ratepayers. Rather, in support of its proposal, the Company cites the declining number of residential space heating (R-3) customers and states its view that merging the two CCs would be in the best interests of residential ratepayers.

While the Department shares the Company's apparent concern about the implications of the proposed CC increase for R-3 customers, the Department finds that current circumstances do not warrant a change to our precedent in this area. The record indicates that combining the two CCs as the Company proposes would require residential general use customers to pay an additional $1.7 million in 1994, nearly 50 percent of the costs which would otherwise be allocated

to rate class R-3. The record further indicates that the majority of these costs have been, or are projected to be, incurred for DSM programs in which R-1 customers would be either ineligible or would have very limited eligibility. Because merging the R-1 and R-3 CCs would require R-1 customers to pay a substantial portion of the costs of DSM programs for which they would be ineligible, the Department rejects the Company's proposal. As noted in Section II.A.2, above, the Department will investigate alternate ways of mitigating the impact of an increase in the R-3 CC in a forthcoming docket.

III. ORDER

Accordingly, after due consideration, it is

ORDERED: That the Department will accept the Company's proposed method of calculating the 1994 conservation charges for all rate classes, as identified in the Revised CC Filing, except that (1) the Company shall maintain the current CCs for the R-3 and G-2 rate classes, and (2) the Company shall maintain separate CCs for the R-1 and R-3 rate classes. These approved CC rates shall go into effect on March 1, 1994 and shall be subject to reconciliation following the Department's Order in the forthcoming monitoring and evaluation proceeding.

FURTHER ORDERED: That the Company shall comply with all directives in this Order.

By Order of the Department

TABLE 1

CURRENT, PROPOSED AND APPROVED CONSERVATION CHARGES

Rate Class	Current CC ¢/KWH	Proposed CC ¢/KWH	Approved CC ¢/KWH
R-1	0.5026	0.3278	0.3278
R-3	0.8107	1.0397	0.8107
R-1/R-3	N/A*	0.5218	N/A
G-0	1.0853	0.4181	0.4181
G-2	0.7248	1.5382	0.7248
T-2	0.7231	0.5390	0.5390
PR	0.0041	0.0029	0.0029
S-1	0.4985	0.3080	0.3080
I-1/23	0	0	0
24	0.9777	0.6646	0.6646

* Currently the Company does not merge the CC for rate classes R-1 and R-3.